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# An Exploration into Individual Development Accounts as an Anti-Poverty Strategy

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*A non-random, cross-sectional sampling procedure was utilized in this study to determine what factors are related to households choosing to utilize Individual Development Accounts (IDAs) as a means to escape poverty. Surveys from 111 households were collected from September 1997, to April 1999, in seven Ohio counties to elucidate the relationship between the level of assets in working poor households and selected household demographic variables, and the decision on whether or not to actually participate in an IDA program. Findings revealed that households 1) with more than one wage earner and 2) with higher levels of education are more likely to join an Individual Development Account and benefit from a matched savings account. The implications of an asset-based social welfare policy strategy will be discussed.*

## Introduction

The fears of welfare advocates concerning “the end of welfare as we know it” are steadily being substantiated by research findings that reveal the majority of welfare-to-work program participants simply leave the welfare rolls to join the ranks of the working poor (Children’s Defense Fund, 2000, 1998; Edin and Lein, 1997; Parcel and Menaghan, 1997; Chilman, 1995; Halter, 1994; Tierney, 1991; Miller, 1989). Mandated work does little to contribute to the well-being of poor families working at or near minimum wage and receiving negligible benefits in the areas of affordable health care, child care, transportation, and housing. Many families and children will actually suffer greater hardships

upon leaving welfare under the new law unless they can somehow accumulate material and human assets such as savings, housing, education, and job training allowing them to escape from the vicious cycle of minimum wage/under employment (Welfare Law Center, 1998; Duncan and Brooks-Gunn, 1997; Wilson, 1996; Sherraden, 1991; Rovner, 1991; Rose, 1990).

The theoretical model utilized in this study is Sherraden's asset-based theory of economic and social development. Sherraden is the current director of the Center for Social Development (CSD), and the survey tool (obtained by permission from CSD) used for data collection is similar to the one the CSD developed for their current national evaluation of asset-based programs or Individual Development Accounts, referred to as IDAs throughout this paper. Sherraden promotes a synthesis of economic development and social welfare via long-term asset accounts aimed at accumulating savings for life goals via the establishment of matched savings accounts or IDAs for working poor individuals and households. Accumulated savings can then be converted into long-term assets in the form of home ownership, continuing education, and/or a small business. But who among the working poor will actually join an IDA program and capitalize on the matched savings they provide?

The plight of the working poor is of tremendous importance to our society due to the fact that one of five children in America now lives in poverty and the working poor population is rapidly expanding (Children's Defense Fund, 1997; Zaslow and Emig, 1997; Caputo, 1991). Numerous social researchers have challenged the efficacy of a laissez-faire capitalistic economic model which results in even greater social and economic disparity between social classes, communities, and geographic regions, even when the poor are working (Midgley, 1995; Kondrat, 1994; Lasch, 1994; Estes, 1993). What Sherraden (1991) proposes is a theory of asset-based welfare policy in which the poor are provided the opportunities/life chances (just like middle and upper-class Americans) to establish a financial stake in the American economic system via the holding of actual material/human capital assets. Individual Development Accounts (IDAs) are the primary social welfare policy tool advocated by Sherraden to provide a financial stakehold for the working poor. However, little research has been completed to date as to the effectiveness of IDAs as an anti-poverty strategy

for working poor households. The primary research question concerning IDA implementation addressed in this paper is whether or not working poor households can capitalize on a program requiring participant savings of money earned in the labor market. Will IDAs simply “skim” those households which are already closest to leaving the ranks of the poor, leaving behind those households with the lowest levels of material capital and human assets?

Specifically, the research question addressed in this paper is: what is the relationship between the level of assets in working poor households at the time of this study, including key household demographic characteristics, and the study participant’s decision on whether or not to actually participate in an IDA program?

### Methodology

This study is a secondary analysis of data collected for the purpose of evaluating the effectiveness of various forms of Resident Development Fund (RDF) Projects financed by Ohio Capital Corporation for Housing (OCCH). OCCH is a not-for-profit housing corporation providing more than 4,000 units of subsidized housing in 68 projects locations across Ohio. OCCH’s Resident Development Fund is \$300,000 set aside for the “purpose of supporting initiatives to create opportunities for residents of affordable housing to improve their economic situation and achieve greater self-sufficiency” (OCCH Annual Report, p. 6, 1996). Of the numerous OCCH Resident Development Fund projects funded during the study, seven were structured around the implementation of Individual Development Accounts (IDAs) as conceptualized by Sherraden (1991). Monthly savings by IDA participants were matched by OCCH funds by a ratio of 2-to-1. That is, for each dollar a participant saved, OCCH deposited two dollars in their savings account. Matching funds could only be utilized by participants for three “legitimate” uses: 1) to purchase a home, 2) to continue education, or 3) to start a small business.

Surveys from 111 OCCH households are used in this study to contribute to our understanding of the relationship between the level of household assets and the resultant likelihood of their participating in an IDA program. Table one is a compilation of the

descriptive statistics measured in the 111 households. Gender was dropped from the analysis due to 86% of the households surveyed being female-headed, resulting in an insufficient sample size for a statistically valid analysis.

### *Sampling*

A non-random, cross-sectional sampling procedure was utilized in which all potential IDA program participants (heads of households) were asked to fill out the IDA program evaluation survey before entry into the IDA program. The study period began with the implementation of OCCH's Resident Development Fund in September 1997. The last data was collected in April 1999. Only those households with income from labor market participation were eligible to participate in an IDA. Not all heads of households surveyed went on to actually open an IDA account. Therefore, it was possible to try to identify those individual and household characteristics that contribute to the decision to join an IDA program. Steps were taken to insure the participant confidentiality of both groups by only using the first and last initial of the head of household's name along with the last four digits of their Social Security number to identify their survey responses. A verbal informed consent was also obtained from each participant who completed the questionnaire, informing them of the research purposes of the study and insuring each participant of their confidentiality. Persons were not required to complete the questionnaire to receive services. Of the 111 heads of household surveyed, 15 were dropped from the logistic regression analysis that follows due to their status as homeowners, negating one of the primary goals of IDA participation. Of the remaining 96 households surveyed, 28 chose not to participate in an IDA program.

### *Data Analysis*

The dependent variable in the logistic regression analyses utilized in this study is a dichotomous variable based on the study participant's decision to participate or not participate in an IDA program. In the logistic regression analysis, a forced entry of all independent variables simultaneously was utilized. The dependent variable is coded as "0" (survey participant not

Table 1

*Descriptive characteristics of households surveyed (N = 111)*

<i>Variable</i>	<i>Percent</i>	<i>Mean</i>	<i>S.D.</i>
<i>Race of Head of H.H. (n = 109)</i>			
African American	59.6		
Caucasian	38.5		
Hispanic	.9		
<i>Age of Head of H.H. (n = 110)</i>			
21–25	14.5	33.74	7.75
26–30	21.0		
31–35	23.6		
36–40	25.4		
41+	15.5		
<i>Number of Adults in H.H. (n = 111)</i>			
1	61.3	1.47	7.75
2	34.2		
<i>Number of Children in H.H. (n = 111)</i>			
0	14.4	1.75	1.31
1	30.6		
2	35.1		
3	13.5		
<i>Level of Education Completed by Head of H.H. (n = 110)</i>			
Grade, middle or jr. high	.9		
Attended high school	7.3		
H.S. graduate or GED	25.5		
Attended some college	47.3		
Graduated from college	12.7		
Attended graduate school	6.3		
<i>Total H.H. Earned Monthly Income (109)</i>			
0	6.4	1200.50	669.01
1–500	7.3		
501–1000	22.9		
1001–1500	35.8		
1501–2000	17.4		
2001+	10.1		

Table 1

*Continued*

<i>Variable</i>	<i>Percent</i>	<i>Mean</i>	<i>S.D.</i>
<i>Total H.H. Debt (n = 110)</i>		12514.02	16631.29
0	8.2		
1-5K	31.8		
5K-10K	23.6		
10K-15K	10.0		
15K-20K	5.5		
20K-30K	10.9		
30K+	14.5		
<i>Total H.H. Material Capital Assets (n = 101)</i>		13725.37	27870.62
0	9.9		
1-5K	47.5		
5K-10K	21.8		
10K-15K	3.0		
15K-20K	3.0		
20K-160K	14.8		

joining IDA program) or "1" (survey participant joining IDA program). The independent variables entered in the logistic regression analysis are: age and race of head of household, number of adults, and number of children in household, education level of head of household, total household monthly earned income, total household debt, and total household material capital assets. Material capital assets are considered to be "long-term", providing households with financial stability and a "stakehold" in their lives and communities (Sherraden, 1991). Examples of material capital assets in this study include automobile ownership, as well as savings account balances. Because more than half of the households surveyed had a zero balance in their savings accounts and the remainder had negligible balances, a decision was made to include checking account balances as material capital assets.

The results of this analysis are found in Table 2. The following research hypothesis was tested:

**Hypothesis:** The level of participant material/human assets and their personal/household characteristics are not significantly correlated with their decision to join or not join an IDA. The test statistic calculated is the "Model" chi-square = 15.632,  $p = .048$ . We therefore reject our research hypothesis at the  $\alpha = .05$  level and conclude that the level of participant material/human assets and their personal/household characteristics are significantly correlated with their decision to join or not join an IDA.

A statistic analogous to R-square in multiple linear regression was calculated; the Nagelkerke pseudo R-square = .214, indicating a moderate "goodness of fit" for the logistic regression model in predicting the probability of IDA participation.

The statistical significance of the logistic regression coefficients is determined by calculating the Wald test statistic,  $\alpha$

Table 2

*Logistic regression: predicting whether study participants join IDA program (n = 96)*

Variable	Log. Reg. Coef.	Wald Stat.	P	R	Exp(B)
Age	-.0567	2.3713	.1236	-.0566	.9449
Race	-.1005	.0322	.8575	.0000	.9044
# Adults	.6947	3.2603	.0710	.1043	2.0031
#Children	.4161	3.6381	.0565	.1189	1.5160
Education	.8775	8.3191	.0039	.2335	2.4048
Total Income	.0001	.1312	.7171	.0000	1.0001
H.H. Debt	.0000	1.1211	.2897	.0000	1.0000
H.H. Capital	.0000	.3890	.5329	.0000	1.0000

"Model" chi-square = 15.632,  $p = .048$

Nagelkerke pseudo R-square = .214

*Classification Table: Predicting IDA Participation*

Observed	Predicted		Percent Correct
	0	1	
Did not join IDA (0)	7	21	25.00%
Joined IDA	5	63	92.65%
			Overall Correct: 72.92%



= .05. The education level of head of household (Wald = 8.3191,  $p = .0039$ ) is significant in predicting IDA participation. Both the number of children in household (Wald = 3.6381,  $p = .0565$ ) and the number of adults in household (Wald = 3.2603,  $p = .0710$ ) were found to be statistically significant, ( $\alpha = .10$  level) in predicting IDA participation. The relative importance of the independent variables in predicting IDA participation is indicated by the "R" value, with education level being the most important, followed by the number of children and number of adults in the household, respectively. Finally the relative effect of an independent variable on the probability of IDA participation occurring is determined by the value of  $\text{Exp}(B)$ . If the value of  $\text{Exp}(B)$  for an independent variable is greater than one the probability of IDA participation increases by the value of  $\text{Exp}(B)$  for each one-unit increase in the independent variable. Therefore, with a one-unit increase in the level of education completed by the head of household, the probability of their participating in an IDA program increases 2.4048 times. A one-unit increase in the number of adults in household increases the probability of IDA participation by 2.0031 times. And a one-unit increase in the number of children in household increases the probability of IDA participation by 1.5160 times.

### Study Findings

Concerning the decision to join or not join an IDA program, the education level of head of household, number of adults in household and number of children in household were found to be significant in predicting IDA participation. These findings suggest that those households with higher levels of education for head of household and with more adults are significantly more likely to join an IDA program. Both of these household characteristics are related to the income potential of a household, with higher education levels and more breadwinners per household being associated with higher household income (U.S. Bureau of the Census, 1997).

These findings also concur with Brown's (1981) analysis of program selection bias based on the potential participant's characteristics. It would appear that at this juncture, the IDA programs surveyed are not attracting the poorly educated, single-parent

households that comprise the chronically poor population. Instead, those heads of household who are choosing to join an IDA have a higher income potential and likelihood of saving. However, the current income level of household was not found to be significant in predicting IDA participation.

Concerning those households with more children being significantly more likely to join an IDA program, it would appear as though this finding is not congruent with the above discussion. Perhaps households with more children are more likely to be involved in neighborhood/community activities, which increases their likelihood of finding out about and joining an IDA program. This finding is, however, congruent with Erickson (1963), with heads of household with children (perhaps?) being more likely to invest in their children's future well being. While not a research variable, the author noted that in some participating households the income of teenage children was critical to the household's economic survival strategy, with older children contributing financially to the family's budget as soon as they were old enough to obtain paid work. More research is needed to explore this possible relationship between number of children and decision to join an IDA program, especially concerning possible programmatic variables that might explain this relationship as well as the role of working children in working poor household survival strategies. It should be noted however, that this study is exploratory in nature and the research design, instrumentation and conceptual ambiguities do limit the validity of interpretation. The cross-sectional survey research design cannot be used to infer causality. However, this researcher's numerous contacts with the seven agencies implementing IDAs over a two-year period and frequent feedback from IDA program coordinators do provide the opportunity to explore the complex relationship between household demographics, assets, and potential savings behavior.

### Implications for Working Poor Households and Communities

As with all potential solutions to a multi-dimensional social problem such as poverty, IDAs must address the individual, familial, community, and societal-level aspects of poverty. The proponents of IDAs range from the politically conservative to the

politically liberal ideologies of social welfare. IDAs attempt to "bridge the gap" between individuals and society, providing "life chances" (Darendorf, 1979) for the poor in America. These life chances take the form of material and human asset accumulation accounts (IDAs) made possible via matched savings accounts for working poor households. And in the words of Sherraden (1991, p. 6): "while incomes feed people's stomachs, assets change their heads." While visionary in his conceptualization of asset-based social welfare policy, how realistic is Sherraden in his program for working poor households that proposes they save money before benefiting from IDA participation and the benefits of assets?

According to this study's findings, those heads of households with higher levels of education are more likely to benefit from the benefits of IDA participation. This finding is congruent with Sherraden's asset based theory and its human capital theoretical (Becker, 1962) underpinnings. This is an especially noteworthy finding with critical implications for working poor individuals and households. The poverty population in America is predominately made up of women and children, with the likelihood of poverty increasing dramatically with female-headed, single-parent households (Children's Defense Fund, 1997, 1991; U.S. Bureau of Census, 1997), households similar to those surveyed in this study. This probability becomes even greater with minority populations of female-headed, single-parent households struggling to make ends meet (Welfare Law Center, 1998; Edin and Lein, 1997). This finding, while tentative, would indicate that those households in the most need of assistance (women and children) could possibly be left out of an asset-based social welfare approach to alleviating poverty which requires households saving part of their incomes before the benefits of an IDA can be realized.

An additional finding with important implications to an asset-based approach to social welfare is that households with more than one adult were found to be more likely to join an IDA program. Once again, it is those households headed by single parents who are more likely to experience poverty in America. Households with more than one adult have the potential for higher income and labor market participation levels. Therefore, their potential to benefit from the matched savings provided by

participating in an IDA program is also more likely. Finally, studies (Edin and Lein, 1997; Mingione, 1991) indicate that the benefits from formal labor market participation by female-headed, single-parent households must be weighed against the benefits of an informal support network. In the patchwork quilt of survival strategies utilized by working poor, female-headed households, does formal labor market participation at or near minimum wage "make sense?" The preponderance of minimum-wage, service sector jobs, without medical benefits or pension plans, which working poor labor and mandated welfare-to-work participation often results in (Children's Defense Fund, 1998; Chilman, 1995), does not make the "logic of the marketplace" a profitable experience for many households. These limited economic opportunities may quite possibly be due to single-parent and/or minority status, as well as the poverty environments in which working poor households often live, rather than their lack of initiative or motivation as often claimed by conservative social welfare theorists (Mead, 1985; Murray, 1984). The challenge of how to reach this population of poor remains, not only for IDAs, but for all anti-poverty programs. Additional research concerning the applicability of asset-based social welfare to working poor households, especially female-headed, single-parent households, warrants consideration. Unless IDAs reach those households most likely to be stuck in poverty, they will only benefit the "near-poor" who are most likely to leave the ranks of poverty on their own (Gueron and Pauly, 1991).

### Summary

Unfortunately, the current economic and political consensus in the United States continues to stigmatize the poor and blame them for their poverty rather than the social, economic, and political structures which promote "production for profit" rather than investment in human potential. The same economic environment has pervaded the global economy, placing vulnerable populations, especially poor women and children, at risk. How to manage this paradox of the responsibility of society, on the one hand, and the responsibility of the individual on the other, in bringing about a "common vision" of economic and social justice

is, in this researcher's mind, the synthesis of knowledge building in social work which now calls the profession to task.

As this society enters the new millennia, IDAs might provide the "life chances" for working poor households in America, if they are integrated into a broader community economic development intervention strategy that targets the reality of the poor. However, as this study suggests, greater efforts are needed to bring IDAs within the reach of working poor households, especially single-parent households with limited formal education. This and other studies give beginning data which suggests the current policy may not reach the poorest citizens. Much work is yet to be done to bring about a society that values human potential in all its diversity. Hopefully social workers will answer this call and make their contribution to alleviating this age-old social problem of poverty by advocating for social work education and practice models that empower working poor/vulnerable populations via community economic development methods that contribute to social and economic justice in America and abroad.

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